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Summary record of the joint meeting of the Second Committee and the Economic and Social Council on "The global economic situation and sovereign debt crisis"
Held at Headquarters, New York, on Monday, 24 October 2011, at 9.30 a.m.

Co-Chair:	Mr. Momen (Chair, Second Committee)	(Bangladesh)
Co-Chair:	Mr. Kapambwe (President, Economic and Social Council)	(Zambia)
Moderator:	Mr. Vos (Department of Economic and Social Affairs)	
Guest speaker:	Professor Joseph Stiglitz (Professor of International Affairs, Columbia University)	

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The meeting was called to order at 9.50 a.m.

Panel discussion on "The global economic situation and sovereign debt crisis"

1. **Mr. Momen** (Co-Chair) said that the present event was the first-ever joint meeting of the Second Committee and the Economic and Social Council. It had been called in the context of the ongoing global economic and financial crisis at a time when traditional economic models were proving to be of little help in meeting the challenges of high unemployment, widening income inequality, flagging economic growth and sharply increased food and energy prices. Globalization had brought greater opportunity for prosperity, but it had also made countries more vulnerable to external shocks. In a world where a huge proportion of people were living below the poverty level, the most vulnerable countries were likely to continue to fall short of the Millennium Development Goals unless there was strong political commitment on the part of development partners, matched by innovative financing mechanisms.

2. In the past year, the crisis had taken a new turn as a number of developed countries had begun grappling with sovereign debt issues that were threatening to bring financial and economic distress not only to them but also to the rest of the world, owing to the interconnectedness of international financial markets. The purpose of the current meeting was to enable all the participants to understand better those interrelated international financial and economic issues and to think about appropriate policy responses, under the guidance of Professor Joseph Stiglitz, who would share with them his insights and perspectives.

3. **Mr. Vos** (Department of Economic and Social Affairs), moderator, said that, after showing signs of recovery at the beginning of the year, the global financial situation now seemed to be on the brink of an ever greater disaster as problems in the private sector had begun to spill over into the public sector. The banking and sovereign debt crises had become intertwined and could not be dissociated from other sources of concern, including persistent high unemployment, especially in the developed countries, high volatility in currency and commodity markets and an apparent inability of Governments to frame policies that would address all aspects of the crisis. The European Union was struggling to find answers, as was the Group of Twenty (G-20), while contending with the risk of a double-dip recession.

4. There was no better person than Professor Stiglitz to say whether the world was teetering on the brink of a new crisis. As Chair of the Commission on the Measurement of Economic Performance and Social Progress which in 2009 had informed the General Assembly of possible solutions to the more systemic problems underlying the 2008 and 2009 crisis, he would be able to shed valuable light on the current challenges.

5. **Professor Stiglitz** (Columbia University) said that the current global meltdown had begun in the United States of America with the subprime mortgage crisis, which had then been exported to the rest of the world. Europe was currently exporting it back to the United States. The economic challenges were great and the policy frameworks responding to those economic challenges were not adequate: in fact, many countries were moving in the wrong direction.

6. Before the crisis, the prevailing doctrine had been that economic integration, and diversification, would reduce risk; that securitization, the spreading of financial products around the world, was the answer. The United States had thus exported about 40 per cent of its toxic mortgages to Europe; if it had not done so, the downturn in America would have been much worse. Nevertheless, the overall effect was not what had been hoped, for reasons to do with both the underlying economics and the mathematics underlying the economics. That could be seen by analogy. A more integrated electric system made for more efficient use of electric generating capacity, but a breakdown in one part of the electric grid could bring down the whole system, as had been the case in the United States when a problem in a little town in Ohio had left the whole east coast without electricity. Recognizing then that an excessively integrated system could be very volatile, those in charge had responded by putting all kinds of circuit breakers into it. In the financial system, the same kind of effect would be produced by capital controls. One of the big changes to emerge in the aftermath of the crisis was the recognition by the International Monetary Fund that, under certain circumstances, capital controls were a good thing. A position that the United Nations had taken and that he had taken at the World Bank a decade earlier had now become part of the conventional wisdom. The need for

capital account management was generally acknowledged.

7. The current crisis, like the Great Depression, was actually a mixture of several different crises. The problems had been compounded by capital market integration, but then, as now, an economic problem, a financial problem and a monetary system problem existed simultaneously. In the debate about the Great Depression, the monetary authority, the Federal Reserve, was often held responsible for making it worse by not increasing the money supply fast enough. That had been the lesson drawn by Federal Reserve Chairman Ben Bernanke. The current crisis had shown, however, that much of that analysis was wrong. No one could have increased the money supply more than Chairman Bernanke. The Federal Reserve's balance sheet had risen from $800 billion to over $2 trillion in a very short span of time, but in spite of that unprecedented increase in the money supply, the economy had not recovered. In an economy that was supposed to have one of the most flexible labour markets in the world, 25 million Americans could not get a full-time job. Flexibility was not the answer. There was something wrong when millions of Americans were being thrown out of their homes. Demand and supply were not working as they were supposed to do.

8. The prevailing idea in response to the 2008-2009 crisis had been that by simply repairing the financial sector, the economy would return to normal. Hundreds of billions of dollars had accordingly been poured into the banks; in contrast with the welfare granted to the poorest, it had been given without conditions. However, instead of using the money for lending, as had been expected, the banks had used it for bonuses and dividends. While, the banking system had been reasonably, if not perfectly, repaired, the economy was still sick. Banks had gone back to giving unprecedented bonuses, but unemployment had remained very high.

9. Since neither the financial interpretation nor the monetary interpretation seemed to fit, the question that needed to be asked was: What had the state of the economy been back in 2007 before the crisis? In a way, it had been very sick: in 2006, 2007 and 2008 before the crisis, it had been sustained artificially by a bubble, which had led to unprecedented and unsustainable levels of consumption. The savings rate in the United States had dropped to zero; the bottom 80 per cent of Americans had been spending 110 per cent of their income. As a former Chairman of the Council of Economic Advisers had said, that which was unsustainable would not be sustained.

10. The next question to be asked, then, was: Why had it been necessary back in 2006 and 2007 to have the artificial support of a bubble to keep the economy going? One of the reasons had been the structural transformation of the global economy occurring at the time. The Great Depression had been another period of structural transformation. In the late nineteenth and early twentieth centuries, there had been unprecedented increases in the rate of productivity in agriculture, with the result that, in contrast with the nineteenth century, when most people had earned their living by producing food, fewer and fewer people had been needed to produce food. For instance, only 2 per cent of the American people currently worked to produce more food than even an obese country could eat and the United States had become a major exporter. Agriculture had now been replaced by manufacturing, where the increase in productivity had outstripped the increase in demand, with the inevitable consequence of a loss of jobs in manufacturing and a movement from manufacturing to other sectors, in particular the service sector.

11. During the Great Depression, people had moved from manufacturing to agriculture, but then incomes had fallen so low that people had not been able to move out of agriculture. In the United States in the 1920s, the percentage of the population in agriculture had fallen from 30 per cent to 25 per cent in just 10 years, but in the 1930s, with the decline in incomes, all movement out of agriculture had ceased. From 1929 to 1933, incomes in agriculture in the United States had fallen by 50 per cent, so that, for a quarter of the people, there had been no demand for manufactured goods and that had led to a loss of jobs in manufacturing. Exactly the same thing was happening today. The increase in productivity was leading to more unemployment and that was decreasing global aggregate demand. Government could play an important role not only in stimulating the economy, but also in helping the shift from the old sector to the new. During the Great Depression, the New Deal and, to an even greater extent, the Second World War had helped move people from agriculture to manufacturing, not only through high levels of Government spending but also by way of investments in the G.I. Bill and in

education that had restructured the United States economy. The need now was for people to move from manufacturing to the service sector but high levels of unemployment were causing them to remain trapped.

12. Beyond that, there were some other problems. In the 1990s, about 80 per cent of the loss of jobs in manufacturing had been due exclusively to increases in productivity. In addition, globalization had led to a shift out of manufacturing in the United States and Europe into other countries that had gained a comparative advantage. Another problem was inequality, because those at the top consumed less than those at the bottom. Income had been redistributed. That was one of the concerns of the "Occupy Wall Street" movement and the *indignados* in Spain and all over the world. The upper 1 per cent of the United States population now garnered more than 20 per cent of the income and held more than 40 per cent of the wealth. With so much income going to the top, there was less demand for goods, just as in the years before the Great Depression. The same pattern of growing inequality was to be seen in countries all over the world and some of it was related to the structural transformation mentioned earlier.

13. In a global world, global aggregate demand was important. One of the consequences of the failure of the International Monetary Fund, the United States Treasury and others to manage the last global crisis, the East Asia crisis of 1997-1998, had been that countries had decided that they needed to build up reserves in order to guard against ever again losing their economic sovereignty. Trillions of dollars in reserves had thus been built up. While that made sense for each country, in that it increased their autonomy, it meant reduced spending. All over the world, people were not spending in order to build up their reserves, resulting in a drop of hundreds of billions of dollars a year in global aggregate demand. In the aftermath of the crisis, those problems had grown worse. The countries that had done best were those with the largest reserves; so the reserve build-up had continued. At the same time, inequality had increased, because more unemployment had translated into lower wages. The people doing well were those on Wall Street.

14. Globally, the problem was that redistribution of income from oil consumers to oil producers resulting from high oil prices also affected global aggregate demand, particularly in view of the higher savings rates of oil producers, motivated by prudential concerns about the high volatility of oil prices. As a result, even if the financial system had been fully fixed, health would not have been restored. Even after deleveraging, it would be irresponsible to go back to a world where the bottom 80 per cent of Americans consumed 110 per cent of their income; it was also unlikely for that to happen. Deleveraging had to be addressed, as did the mortgage problem, still not resolved four years after the bubble had burst, but even then, the problem with the global economy would remain.

15. Now there was the euro crisis. At one level, it should be easily manageable: Europe's aggregate debt-gross domestic product (GDP) ratio was less than that of the United States. The Greek debt was a small fraction of European GDP or an even smaller fraction of European wealth. The real problem lay in the euro monetary system itself. The exchange rate mechanism and the interest rate mechanism, which had functioned as an adjustment mechanism, had been removed and nothing had been put in its place. What was needed was a fiscal framework, which did not mean just an austerity framework. The Maastricht Treaty and the Stability and Growth Pact might more appropriately be called the Instability and Non-growth Pact: before the crisis, Spain and Ireland had had a fiscal surplus and a low debt-GDP ratio. They had followed the dictates of the time, the new liberal dictates of free, unfettered markets and deregulation. And they had let the bubble grow. By complying with the standard wisdom, Spain, for instance, was currently having to contend with a situation in which over 40 per cent of its young people had long been unemployed. The problem in Europe could be solved if the European countries showed some cohesion and used their common resources to address each individual situation; if they failed to do that, there would be an even greater risk of a serious global problem.

16. In Europe, something like a new version of the gold standard had been created, removing the ability to respond to a crisis. The gold standard had not caused a crisis: it was an adjustment mechanism, or more accurately, the lack of an adjustment mechanism, just like the euro. Austerity was being suggested as the answer in Europe. However, if Greece, for instance, applied austerity measures, its economy would suffer, because lower incomes spelled lower tax revenues. Ironically, immediately after Spain had adopted the austerity measures, it had been given a credit downgrade — because the markets had believed that

Spain would honour its pledge, not because they had believed that it could not. As austerity had led to lower GDP and lower revenues, the markets had understood that it was a recipe for non-growth and for worsening the fiscal position. They had seen that when one country adopted austerity measures, it did not have global consequences. However, if many European countries did so, Europe would grow weaker, and, in a global world, when Europe grew weaker, everyone would grow weaker.

17. In the United States, there was also talk of austerity, of reducing the deficit. That would not be so difficult, if it were the main issue on the table. Ten years previously, the size of the United States surplus had prompted then Federal Reserve Board Chairman Alan Greenspan to say that if nothing was done about it, all of the country's national debt would be paid back fairly quickly and it would be difficult for him to conduct monetary policy. He had therefore urged a tax cut for rich Americans. The question was how had the world gone from being a place where extremely large surpluses had been viewed as problematic to a place where uncontainable deficits stretched out from the present as far as the eye could see.

18. Just four things had changed the United States fiscal position in a very short time. First, unaffordable tax cuts had been introduced, especially for the rich Americans. Secondly, there had been two very expensive wars that had not increased the country's security, costing trillions of dollars in increasing defence, so that the military spending of the United States was currently almost as much as that of the rest of the world combined. However, as all those hundreds of billions of dollars were being spent on weapons that did not work against enemies that did not exist, they were just money down the drain and did nothing to bolster the country's security. Thirdly, the drug companies enjoyed a special deal. The United States was the largest buyer of drugs, but it did not bargain over prices, at a cost, over a 10-year period, of hundreds of billions of dollars. And fourthly, and most importantly, the country was in recession.

19. The best means for addressing the country's deficits lay not in austerity but in putting America back to work. The same message was valid for much of the rest of the world. Those countries that had the fiscal space to spend money ought to be doing it. The United States had another big advantage. As it had underinvested in infrastructure and technology and education for the previous 20 years, spending in those areas would produce high returns, far higher than the interest to be paid on borrowing. And yet, in the United States, there was talk of cutting back on spending, on investment and weakening the country's future. Concerted austerity was a recipe for global economic suicide.

20. After the collapse of Lehmann Brothers in 2008, it had generally been agreed that money had to be spent, that a stimulus was needed. The stimulus had indeed worked, but it had been too small, given the severity of the economic downturn. Without the stimulus, the unemployment rate in the United States would have topped over 12 per cent rather than peaking at 10 per cent. Had there been no coordinated stimulus around the world, the risk of a global depression would have been very high. The problem was that many people around the world were taking advantage of the crisis to pursue other agendas, particularly the hidden agenda of downsizing government. Investments were bound to create deficits, even though they led subsequently to a lower deficit-GDP ratio because of increased tax revenue. The financial sector in its short-sightedness had thought it important to keep the budget balanced, disregarding a basic economic principle known as the balanced budget multiplier. According to that principle, higher government taxes in tandem with higher government spending resulted in increased GDP and job creation. So if the aim was to create jobs, even while keeping deficits down, that could be achieved by expanding government. If the chosen option was to invest and tax those at the top, focusing on areas of expenditure that had high multipliers and on areas of taxation that had very low multipliers, the balanced budget multiplier could be very large indeed, with every dollar increase in taxes translating into a two-to-three dollar increase in GDP.

21. The agenda clearly reflected in the report of the United States National Commission on Fiscal Responsibility and Reform (the Bowles Simpson report) was to reduce progressivity in the tax system. Such an agenda, designed to make societies more unequal, was very disturbing because increased inequality was currently one of the underlying problems in the United States economy.

22. He reiterated that even if the financial system was fully fixed, there would be no return to normal because the pre-crisis economy had been maintained in a state

of artificial respiration by a bubble; there could be no going back to that bubble. Although in the United States investment was almost back to normal, although the banks were again paying their bonuses, the financial system had not been repaired. Some of the underlying problems remained, indeed had grown, and were playing a role in the current crisis: the problems of too-big-to-fail banks, the problems of bad accounting and non-transparent over-the-counter derivatives. For example, the lack of transparency, the difficulty of ascertaining whether or not banks were sound, was affecting the judgement even of regulators, as in the recent case of the European bank that had failed after they had considered it to be in good shape. If the regulators could not tell whether a bank was strong, how could ordinary investors in the market know? Claims that their confidence had been restored could not be sustained so long as there was clearly no basis for confidence. The credibility of those who had been forecasting that recovery was just around the corner had actually been undermined. As, in response to the crisis, banks had been amalgamated, the degree of concentration had increased, with the result that the too-big-to-fail problem was even greater and excessive risk-taking continued.

23. Unfortunately, because of a focus on short-term problems, some of the longer-term problems had grown worse, including that of climate change. To nurse the economy back to reasonable health, those countries with access to finance must spend more on investment to increase their growth today and increase their growth in the future; policies needed to be put in place that would increase equality, facilitate global structural transformation, reduce dependence on fossil fuels and address the challenge of climate change. The most likely prospect, however, was a long-term Japanese-style malaise, a kind of outcome that he had already predicted at the beginning of the crisis.

24. In conclusion, he echoed one of the main messages of the report of the United Nations Commission that he had chaired two years previously: the crisis was a global crisis; all countries were interdependent; what happened in one part of the world affected others. It was true that the emerging markets had done very well and might be able to continue to grow in spite of the turmoil in Europe and America, but clearly if Europe and America managed to do better, it would benefit all the countries of the world. Global economic cooperation was absolutely essential; the current frameworks were inadequate. The Commission had recommended the establishment of a global economic coordinating council, given the clear need for far more coordination than there had been in the past. He expressed the hope that the current turmoil would give the world a jolt into recognizing its interdependence and furthering global economic cooperation.

25. **Mr. Vos** (Department of Economic and Social Affairs), moderator, thanked Professor Stiglitz, in particular for ending on a slightly optimistic note, despite the underlying pessimism he had expressed. He invited questions from the floor.

26. **Ms. Das** (Project LINK) said that, before the crisis, savings rates in the United States had been very low but that now they were high and there was insufficient spending. What would be an appropriate way to bring back consumption without triggering another crisis?

27. **Mr. Rahman** (Bangladesh) asked what advice Professor Stiglitz would give to the least developed countries, some of which, in the face of severe structural constraints and contending still with the effects of the global crises, remained cautiously optimistic about graduating to developing country status by 2020.

28. **Mr. Mahmood** (International Labour Organization (ILO)) said that Professor Stiglitz had formulated the important hypothesis that the rate of growth of productivity outstripped the growth of aggregate demand. That complemented ILO findings on the trade-off at the heart of the growth process when growth was decomposed into productivity and employment. The aspirations of countries to economic growth were based on higher and higher productivity and, as a result, employment suffered. He asked Professor Stiglitz to comment.

29. **Mr. Ovalles-Santos** (Bolivarian Republic of Venezuela) said that the Group of 77 countries were very concerned about the negative outlook for the global economy. Nothing less was needed than a full reform of the system. That being so, he asked Professor Stiglitz to elaborate on his proposal for the establishment of a global economic coordinating council. Would it be at finance minister level or at Member State level, or would it be a natural outgrowth of a commission of experts?

30. **Mr. Acharya** (Nepal) said that, in an interconnected world, the basic problem with the G-20 was that it was not representative. What could be done to ensure that the challenges facing countries like his own were duly taken into account at the global level?

31. **Professor Stiglitz** (Columbia University), responding to the question about the savings rate for the United States, said that, after dropping to close to zero, it was currently hovering around 5 or 6 per cent. Despite the claims by experts that United States consumption was climbing back up, that percentage corresponded to what was to be expected from the inequality existing in the United States. The upper 20 per cent of the population could be assumed to be saving around 15 per cent and the remaining bottom 80 per cent to be saving zero. Before the crisis, the bottom 80 per cent had been saving minus 10 per cent. Considering the United States was not about to regain its previous levels of consumption, the question was: What was going to fill the gap? He disagreed with some of the so-called economic experts, one of whom had talked about excessive savings around the world. The global economy showed no savings glut. Everywhere there were huge needs — for infrastructure in Africa and elsewhere in the least developed countries, for retrofitting the global economy for global warming, for investments to raise the standards of living of those at the bottom. The problem lay rather in the fact that the global financial markets were not properly deploying savings to meet the real investment needs of the global economy. The issue that needed to be addressed globally, then, was how to fix the global financial markets. The response of the G-20 was to encourage some parts of the world to consume more, but the world would not survive if everybody were to adopt the prolific consumer lifestyle of the United States. In terms of the environment, in terms simply of physics, the planet would not survive if everyone consumed in that materialistic way. A change was essential and that required investments, investments that would restructure the economy.

32. In recent years, the International Monetary Fund had made some commendable changes and had become much more open. It was now recognizing the link between inequality and volatility; addressing inequality was part of its mandate, because stability was part of its mandate. As there was overwhelming evidence of a link between inequality and stability, the Fund had become rightly concerned about inequality. That was a major change, as was the Fund's new approach to capital account management.

33. The ILO representative had made the very pertinent point that productivity growth, in the absence of measures to restructure the economy, could push down employment. When it outstripped the increase in demand for manufactured goods, it would indeed create a problem of employment, just as higher productivity growth in agriculture would have been a real problem had people not been moved out of agriculture. They had been shifted first to the manufacturing sector, but now that, too, was experiencing something like a problem of productivity. When the economy was working well, with people moving between sectors, when there was perfect mobility, without impediments, then net GDP could rise. He pointed out that, even when productivity increases led to increased GDP, when for instance things were working perfectly, not everyone gained. There were winners and losers, and the winners might be expected to compensate the losers, although they very seldom did. When, however, the markets were not working well, as was often the case, people were unable to make the shift and became trapped in the wrong sector, with declining incomes. The challenge today then was to find ways of restructuring national economies and of moving people out of sectors where they were not needed into sectors where they were needed. That challenge was all the greater for the least developed countries.

34. One of the reasons why the notion of a savings glut was particularly offensive was that some countries were in need of large investments in infrastructure and technology and the developed world should be trying to provide more assistance to them. Even in many African countries, which in recent years had given evidence of good governance and good macroeconomic frameworks, capital had been flowing, but the financial markets were still not providing them with the necessary capital. Thus, there was a real need for public assistance. Indeed, one of the requirements of the present-day world was a further recapitalization of the International Monetary Fund and the World Bank: the global economy had been expanding for the past 20 years, but the world's financial institutions had not kept pace.

35. The global economic balance of power had changed significantly since the founding of the Bretton Woods institutions, 60 years earlier. The emerging

markets now had a far higher income than Europe and America had had in 1945; they had the resources to set up their own institutions, to try to help the least developed countries, to help each other. Cooperative institutions, like the Andean Development Corporation (CAF), had proved very effective in raising capital, and at much lower interest rates than could have been obtained by any of the individual members. The time was therefore ripe to rethink the global economic architecture.

36. One of the reasons behind the proposed establishment of a global economic coordinating council was the view, shared by the representative of Nepal, that the G-20 lacked inclusiveness, representativeness and political legitimacy, and that the one international institution that brought all countries together was the United Nations. The basic idea was that a small group was needed to address such complex matters but that it should be representative, have legitimacy and reflect all the different views and circumstances of the various countries. At the G-20 meeting in 2009, when there had been a clear threat of global disaster, the world had come together. Now, however, different parts of the world faced very different economic circumstances. The emerging markets were growing reasonably well while Europe and America were in difficulty. He reiterated that austerity was the wrong path for those countries that had the fiscal space to expand, like the United States and many European countries.

37. Turning to the question regarding the least developed countries, he said that one of the important mechanisms whereby countries could help themselves was trade. In 2001, countries had joined together in the Doha Development Round, but that had proved to be a misnomer as, in subsequent years, Europe and the United States had basically reneged on their development commitments. Europe had taken a very important step, through the Everything but Arms initiative, to open its doors to the least developed countries, at very small cost — and indeed some benefit — to Europe, and enormous benefit to the least developed countries. Unfortunately, the United States had not followed suit. It had agreed to open its doors to 97 per cent of least-developed-country products; it had, for instance, agreed to accept from Bangladesh all goods except those that Bangladesh actually produced. Thus, Bangladesh could export jet airplanes to the United States but not garments or textiles. It was, however, important for the United States to join in that effort of opening doors, of sweeping away non-tariff barriers, both in Europe and the United States; that could be a very important avenue in the current context.

38. **Mr. Vos** (Department of Economic and Social Affairs), moderator, invited further questions from the floor.

39. **Mr. Gangnes** (Project LINK) asked Professor Stiglitz whether he saw any political way forward in the United States or Europe that would get round the austerity trap. Was there still room for some kind of grand bargain? He wondered, in particular, whether policymaker Bernanke should follow academic Bernanke and try to target somewhat higher inflationary expectations.

40. **Mr. Busuttil** (European Union) said that the previous day, the European Council in Brussels had again reiterated its commitment to take all necessary measures to ensure the stability of the euro area. The package consisted of five technically and politically interrelated elements, namely, forceful action by all Governments to ensure sustainable public finances and enhance growth; a sustainable solution for Greece; a sufficiently strong firewall against contagion; restoration of confidence in the European banking sector through a coordinated scheme to recapitalize the banks and improve their funding; and, lastly, better governance and stronger integration of the euro area. Some eminent economists considered those measures misguided and called instead for aggressive stimulus. While the European Union's crisis management might seem to have been belated and piecemeal, it had made a significant impact, particularly in view of its complex multi-member State structure. Indeed, in addressing the build-up of public debt, it had been very much a forerunner; in recapitalizing the banking system, its efforts had been significant and had led, in particular, to substantial raising of capital in a pre-emptive manner and clear commitments by Governments to provide financial backstops. The European Union took its responsibilities seriously, both in the world and at home. It recognized that the sovereign debt crisis in the euro area was the defining challenge of the age and would continue to address that challenge with political determination, courage and statesmanship.

41. **Mr. Dennis** (Liberia) said that post-conflict countries like his own, and developing countries

generally, were anxious to see a revival of the global economy in order to make their contribution as part of an interconnected world. The United States, whose economy had always been a benchmark for other countries to measure their own growth and efficiency, seemed incapable of responding to the current crisis at the necessary global level. He wondered how the United States could renege on its global responsibility for that crisis.

42. **Mr. Al Dardari** (Project LINK) asked Professor Stiglitz what advice he would give to economic policymakers in the Arab world faced with high expectations of job creation among young people at a time of transition or great pressure for Governments in the region.

43. **Mr. Pauly** (Project LINK) said that the history of attempts at international policy coordination of the kind favoured by Professor Stiglitz was discouraging. What was different now? What were the obstacles? Were there any grounds for optimism?

44. **Professor Stiglitz** (Columbia University) said that he did not believe that monetary policy alone offered a solution to the crisis; it had, however, contributed to the crisis, particularly because of its role in deregulation and in determining interest and leverage rates. The Federal Reserve's capping of interest rates in the United States had not translated into increased lending. The big banks had been saved but nothing had been done for the small banks, which were responsible for lending to small and medium-sized enterprises. Around the country, 300 such banks had gone under, while 800 others were in a precarious position. Furthermore, as most lending to small businesses was based on collateral, in the form of real estate, the failure of the monetary authorities to fix the real estate market, characterized by continually falling prices, had severely circumscribed lending. As for the academic view that lower interest rates would cause people to invest more, that was the kind of silly reasoning typical of the silly models that had led to the crisis. Responses to changes in interest rates tended in fact to be relatively small.

45. Before the crisis, 40 per cent of all investment in the United States had been in real estate, with the result that more houses had been built than were needed for the coming 5 or even 10 years. The manufacturing problem had thus been compounded by the real estate problem, which was why he was pessimistic about the effectiveness of monetary policy. The first exercise in quantitative easing (QE1) had not worked, nor had the second (QE2). Globalization called for a global perspective. In a global world, banks lent money to rapidly growing economies, not to sick ones; in other words, they lent to the emerging markets. Monetary expansion in a globally open economy was therefore very different from monetary expansion in a closed economy. In an open economy, money went largely to where it was not needed, not to where it was needed. Brazil and a number of other countries had complained that QE2 monetary expansion was hurting their economy. They had accordingly put up capital controls in an effort to push back the flow of money, which had been the main mechanism by which QE2 might have worked. The bottom line was that monetary policy was a distraction; the focus should be on fiscal policy. While not every country had the scope for expanding fiscal policy, the United States and some of the European countries, notably surplus countries like Germany, could indeed engage in more expansive activity.

46. On the question of a possible grand bargain, he was pessimistic. The framework that he had outlined earlier — involving increased taxes, particularly at the top where the multipliers were low, and increased expenditures on unemployment benefits and investments with high multipliers leading to high long-term growth — was not being contemplated in American politics today.

47. In Europe, a number of leaders were totally committed to solving the problems. The issues that they had identified had merit and their agenda was essentially sound. In the European Union's July 21 agreement on the Greek debt crisis, they had recognized that austerity was not the answer, but rather that assistance, through a European investment bank or solidarity fund, was needed to spur growth in countries facing such crises. As no money had been forthcoming, Greece had continued to decline as most economists predicted it would.

48. The main problem was that politics and economics were advancing at different paces. The July 21 agreement was a good agreement but it still had not been put into effect. That was not in itself a particularly slow rate of implementation, but it was out of phase with the fast-moving financial markets. A further problem lay in the excessive European focus on austerity. Spain and Ireland had shown that the

Stability and Growth Pact did not work, but no alternative framework had been found. The alternative was a real fiscal union, where countries shared their fiscal strength, something like a European bond, which would provide each of the individual countries with support. However, it was a very big question whether that would happen fast enough. The trouble was that without solidarity, the European Union could not function effectively as a monetary union. The existence of a currency required more than free trade, more than free migration.

49. The European Central Bank had done well in buying the bonds of various countries, but its inflation-targeted mandate belonged to the 1970s, not to the twenty-first century; and its reluctance to accommodate a deeper restructuring of the bonds issued by Greece or other problem-ridden countries was an impediment to the resolution of the European crisis. He commended the commitment of some leaders while noting that greater solidarity was needed to make the system work.

50. In response to the question concerning the Arab world, he said that one of the motives behind the Arab spring had been the acute lack of jobs for youth, but beyond that, there had been a sense of inequity: those who landed jobs were often those with connections. Lack of fairness was indeed a complaint currently being voiced throughout the world in the protest movement. In the Middle East, people were disillusioned, frustrated: they had tried the neo-liberal model, tried the market model, and it had not worked, it had just produced greater inequality. They had tried socialism and it had not worked: there had been no growth, only corruption. However, alternatives did exist. The European social model, hampered unfortunately by the euro crisis, was in many ways a good economic model. There were very many different forms of market economy; it was just necessary to find the right one. The Washington Consensus model had not worked even in Washington; it had led to the global crisis. The Arab world had undergone two bad experiments and now needed a third try, the prospects for success were much greater.

51. Finally, on the question of policy coordination, he said that it was extraordinarily difficult to achieve, but that its absence made for even greater difficulties. In today's world, what one country did had an impact on others. During the Great Depression, beggar-thy-neighbour policies, where one country had tried to save itself, had brought down the global economy. Competitive devaluation worked the same way, with one country seeking to maintain the exchange rate at the expense of other countries. He therefore considered that global economic policy must begin by identifying externalities and the links between countries, and recognizing that action to help one country could have adverse or beneficial effects on others. He again, in conclusion, recommended the establishment of global governing institutions, like a global economic coordinating council, as one of the mechanisms needed to take such externalities into account.

52. **Mr. Vos** (Department of Economic and Social Affairs), moderator, thanked Professor Stiglitz and said that the Project LINK meetings in the coming days would offer an excellent opportunity to give further thought to the complex question of global linkages. Professor Stiglitz had highlighted the importance of looking at the structural transformations in the world economy and seeing how shifts between sectors affected financial markets and commodity price instability; he had also emphasized the need for investment in the long run to overcome structural problems. Stepping up government intervention might be the key, but at the same time people needed to have confidence in what governments could do. That was a good starting point for further interactive dialogue within the United Nations on the lines of the present joint meeting, which he hoped would become a regular event.

53. **Mr. Kapambwe** (Co-Chair) thanked Professor Stiglitz for his precious insights. He stressed that the after-effects of the economic and financial crisis, combined with the emerging sovereign debt crisis, had undermined global economic growth and threatened much of the progress achieved towards the Millennium Development Goals. In that context, the United Nations must assert its global leadership role in coordinating international policy and strengthening global economic governance, and it must do so in closer collaboration with the G-20, the Bretton Woods institutions and global and regional players. It was his hope that collaborative initiatives such as the present one between the Second Committee and the Economic and Social Council would prove useful in advancing policy discussions on the complex issues of economic growth, international finance and development.

The meeting rose at 11.45 a.m.

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Summary record of the joint meeting of the Second Committee and the Economic and Social Council on "Investing in productive capacities for job-rich growth"
Held at Headquarters, New York, on Thursday, 27 October 2011, at 3 p.m.

Co-Chair: Mr. Kapambwe (President, Economic and Social Council) ..... (Zambia)

Co-Chair: Mr. Momen (Chair, Second Committee) ..... (Bangladesh)

Panellists:

Ms. Bachelet (Under-Secretary-General, Executive Director of the United Nations Entity for Gender Equality and the Empowerment of Women)

Mr. Hirsch (Président, Agence du Service Civique)

Mr. Jomo (Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs) (Moderator)

Mr. Somavia (Director-General, International Labour Organization)

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The meeting was called to order at 3.10 p.m.

Panel discussion on "Investing in productive capacities for job-rich growth"

1. **Mr. Kapambwe** (Co-Chair) welcomed participants to the panel discussion on "Investing in productive capacities for job-rich growth" which had been organized jointly by the Economic and Social Council and the Second Committee. The topic was complementary to the Council's theme for its 2012 Annual Ministerial Review, entitled "Promoting productive capacity, employment and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the Millennium Development Goals".

2. The global economic and financial situation was in a period of uncertainty. Fiscal and sovereign debt crises had been compounded by highly volatile stock and commodity markets, while the economic and financial crisis had generated a global jobs crisis. High food prices, unemployment and underemployment had triggered expressions of social discontent around the world. Without access to broad social safety nets, the most vulnerable and marginalized populations were experiencing the worst effects, falling deeper into poverty or struggling to sustain their livelihoods.

3. There was an urgent need for policymakers to consolidate their efforts to tackle the many interconnected challenges. A more inclusive and balanced growth strategy would boost productive capacity and promote job-rich growth. More effective and efficient investment in productive capacities was therefore an indispensable response, not only to the current jobs crisis, but also to enable sustained and equitable economic growth and sustainable development.

4. **Ms. Bachelet** (Under-Secretary-General, Executive Director of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)) said that she welcomed the panel discussion as an opportunity to share the key messages of the recently launched report of the Social Protection Floor Advisory Group (SPFAG), entitled "Social protection floor for a fair and inclusive globalization". The report had been developed within the framework of the social protection floor initiative adopted by the United Nations System Chief Executives Board for Coordination. The International Labour Organization (ILO) and the World Health Organization (WHO) currently led the initiative, with the support of 17 other international agencies, development partners and civil society.

5. At its substantive session of 2011, the Economic and Social Council had adopted draft resolution E/2011/L.21/Rev.1, in which it recognized the need to promote and realize basic social protection in order to achieve decent work in all countries. The idea was not new — the right to social protection went back to the 1948 Universal Declaration of Human Rights — yet access to social protection services remained a privilege of the few, despite the enormous growth in gross domestic product per capita in the six decades since the Declaration was adopted. Seventy-five per cent of the world's population did not have adequate social security coverage. Millions of people continued to live on under $2 per day and without access to sanitation and safe drinking water. The exclusion of so many people from the benefits of economic growth represented a tremendous waste of human potential and pointed to serious problems with the way in which societies were evolving. The growing ageing population also made the limited access to social services an urgent matter of concern.

6. The SPFAG report demonstrated how social protection floors were the missing element for achieving fair globalization. Countries with strong social protection systems, most notably several countries in Latin America, had proved to be more resilient to economic shocks and had achieved better results in terms of sustainable development than countries without such systems. Investing in social protection was a win-win situation in that it brought about macroeconomic stability in the short term and increased human productivity in the long term. The experience of many countries, including low-income countries, had shown that with the right institutions and funding mechanisms in place, establishing social protection systems was a feasible prospect. North-South, South-South and triangular cooperation was a fundamental component of that process. However, while international partners could assist with aspects such as designing schemes, transferring technology and providing initial funding, social protection initiatives could not succeed without the political will of the national Government.

7. As President of Chile, she had placed social protection at the heart of her administration. Her Government had made large investments in improving

access to water, housing and other basic services, and especially in enhancing child development and gender equality. Those efforts had provided several important lessons in developing a social protection system. First, policy coherence must be a central consideration. Unemployment could not be confronted without considering educational opportunities, which in turn depended on health outcomes, which were connected to issues such as sanitation and water. Policy initiatives should therefore span multiple sectors and translate into coordinated actions. Second, the provision of basic services to the people most in need should be considered the bare minimum investment. The development of a social protection system was a gradual process and its financial sustainability was a critical consideration. Provision of the most basic services to people living in extreme poverty was a small investment that would make an enormous difference in their lives. Third, provision of social protection should be about empowering and supporting people. The aim was not to create dependency but rather to unlock the productive capacity of men and women as workers, employers, consumers and citizens. The concept of the social protection floor took into account those key lessons. Through social transfers in cash or in kind, such as pensions, child benefits and employment guarantees, a social protection floor guaranteed access to basic services to all and ensured that no one lived below an established income level.

8. The SPFAG report highlighted key considerations for the development of a social protection floor. For example, adequate political will would eliminate obstacles and could set the standards that were desired. The sustainability of social protection at the national level was another important consideration and had been shown to be feasible. For example, an analysis by ILO together with the International Monetary Fund (IMF) had found that maintaining basic social protection programmes in developing countries such as Benin and El Salvador could cost as little as 1 to 2 per cent of their gross domestic product. Furthermore, in the long term, social protection schemes boosted aggregate demand and generated tax revenues.

9. The design and implementation of a social protection floor should involve dialogue between Government and civil society. In addition, while the concept of the social protection floor had universal application, its development should be tailored to a country's specific infrastructure, economic constraints and political dynamics. Lastly, the social protection floor should be understood as a first step to achieving full social protection. As a Government's fiscal space widened, the levels of protection offered should increase.

10. The report showcased success stories from around the world and was intended to inspire Government officials at all levels to implement policies that drew on the concept of the social protection floor as part of a coherent strategy to advance a fair and inclusive globalization process.

11. **Mr. Jomo** (Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs), said that the report was a timely contribution, as it came in the wake of much social unrest, including the *Indignados* movement in Spain and the many "Occupy" movements around the world.

12. **Mr. Errázuriz** (Chile) said that, as noted in the report, his Government believed that a social protection floor played a critical role in eradicating poverty and preparing people for insertion into the labour market through decent work. The Chilean legislature had recently manifested its commitment to supporting families by increasing the legal maternity leave period from three months to six months. In addition, a bill to provide funds directly to families living in extreme poverty was under consideration. A ministry dedicated specifically to social development had been created to design and implement such policies and programmes, in cooperation with other Government bodies and civil society.

13. **Mr. Acharya** (Nepal) said that the social protection floor initiative was particularly relevant to low-income countries. His own Government had attempted to provide social services through pensions, support for widows and other programmes. However, in a context in which 70 per cent of the population was living on under $2 per day, capacity constraints, including a lack of institutional and human resources, limited the reach and sustainability of any social protection floor initiative. He asked whether the concept had been analysed from the perspective of low-income and least developed countries and whether recommendations were available in terms of leveraging support for improving policy coherence and productive capacity.

14. **Mr. Rahman** (Bangladesh) said that social protection was at the heart of his Government's long-

term development plan. He requested an assessment of the links between the recommendations set out in the report and the Istanbul Programme of Action. He also asked whether the report would be used as an advocacy tool at the upcoming meeting of the Group of 20 (G-20).

15. **Ms. Montel** (France) thanked Ms. Bachelet for her leadership and work with the G-20 and said that she supported the second question by the representative of Bangladesh.

16. **Mr. Almeida** (Brazil) said that the issue of social protection was critical to achieving sustainable development and must be at the centre of the agenda of the upcoming United Nations Conference on Sustainable Development (Rio+20). Social protection floors were not only affordable, but paid for themselves, as they mitigated the effects of economic crises. His Government fully supported the social protection floor initiative.

17. **Ms. Bachelet** (Under-Secretary-General, Executive Director of UN-Women) said that the concept of the social protection floor was not prescriptive; each Government should identify its own needs and priorities and approach social protection as a gradual process in tandem with its efforts at building capacity and financial sustainability. Many developing countries, including Bangladesh, while not yet implementing a full social protection system, had achieved extraordinary results with their programmes in areas such as health and education. The Governments of least developed countries could determine the most appropriate place to start.

18. While the report focused on low-income countries and provided relevant examples, it could also apply to developed countries. Every society had needs and every system had room for improvements. Her work as President of Chile to expand social benefits and opportunities had built on the investments of previous administrations in institutional capacity. The report provided some analysis of how to build fiscal space for social programmes. For example, IMF had found that the long-term costs of not investing in health care services, including training of human resources, were much greater than making such investments. The report was intended to be an advocacy tool and would be launched in different regions. It was written for decision-makers and gave the social, economic and political reasoning for investment in social protection floors. ILO and WHO were developing strategies to encourage its use by Governments, civil society and labour unions as a basis for action.

19. She had been working closely with the presidency of the G-20, which had placed social protection at the centre of its agenda. The G-20 finance ministers had recognized the need for social protection systems both in developed and developing countries. Work also needed to be done with subregional groups and other groupings, as it was clear that some countries needed financial and technical support to initiate programmes.

20. **Mr. Somavia** (Director-General, International Labour Organization (ILO)) said that he wished to specifically address the question of whether there were alternative development models that countries could pursue given the constrained policy environment. The question was particularly pressing in view of the upcoming 2015 deadline for achieving the Millennium Development Goals. Alternative development models were possible, but their implementation involved examining the origins of the current crisis. The issue was both structural and systemic, as the economic and financial crisis was a result of the policies that had been in place. The international community must analyse why emerging countries had weathered the crisis better than developed countries and had avoided the subsequent sovereign debt crisis.

21. The growth and globalization model which was in place had become progressively less efficient. It had increased social inequality, caused damage to the environment, favoured the financial system and multinational corporations, and promoted an export-led system without regard for the domestic expansion of markets. Macroeconomic policy had trumped social policy, resulting in high levels of growth with job shortages. In addition, the reigning approach to finance and economics had transformed technical tools into ideology. For example, the systemic application of deregulation had overvalued the capacity of markets to self-regulate and undervalued Government's role in regulation. A dogmatic adherence to other tenets, such as "grow first and distribute later", had undermined the role of public policy, the dignity of work and respect for the environment and ultimately created the current state of global discontent. The development and implementation of policy must return to a technical view of the tools of economics, to be used in

accordance with the requirements of a particular situation.

22. The United Nations was the best place to assemble ideas and drive policy in a different direction. It was the most credible space to conduct the appropriate negotiations and to gather the views of different groups, ranging from the least developed countries to the European Union. The challenge was great, but the opportunity was even greater. The concept of open economies and societies made it possible to orient markets towards different outcomes. While authorities viewed civic discontent in political terms, focusing on whether the unrest could be leveraged to influence the next election, people were demanding that Governments and the private sector should find ways to create decent jobs, share the common wealth, preserve the environment, offer people a voice and provide basic social protection.

23. He proposed two concepts for discussion: the need for a new era of social justice, and the possibility of a greener and fairer system of globalization. Under the old model, the focus on the financial economy had drawn resources away from the real economy. Governments had cut taxes, while workers incurred the debt used to buy out the financial system. New ways of thinking could make social investment seem feasible. The first change must be in the criteria for determining the success of national policy. For example, instead of judging success based on the percentage of growth and per capita income, which masked issues such as inequality, a new model would judge the success of a policy based on whether it had reduced the work deficit or expanded the space for social dialogue. A focus on increasing productive capacity and developing a social protection floor offered a potential for real change in the globalization pattern.

24. It could be argued that such investments were not practical in a time of crisis. However, short-term measures based on the classical macroeconomic policies did not actually provide a solution. Sacrifices were inevitable, but societies would adapt to a change in direction if they believed resources were being shared more fairly rather than simply being used to save the financial sector. The opportunity for creativity in shaping policy had never been so great. Over the past 15 years, emerging countries in Latin America and Asia had paid back their IMF loans and had been able to respond to the economic crisis on their own terms. The highly influential position of the Governments of China, Brazil and Indonesia within the G-20 was evidence of their intellectual autonomy in terms of policy direction. The United Nations must absorb this new reality and place it at the service of Governments through a strong and challenging mandate.

25. **Mr. Jomo** (Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs) said that much of the current unrest could be attributed to the effects of the unemployment crisis on young people. Many of them had had to delay the start of their careers, which had implications for their professional development and lives. Furthermore, in less developed economies, the problem of underemployment had been exacerbated.

26. It should be recalled that the economic situation before the crisis had been far from ideal. While sub-Saharan African had experienced growth for the first time, that had resulted from capital-intensive investments in areas such as mining, which had not improved employment prospects. In the United States of America, a policy of easy credit that had been implemented following the bursting of the dot-com bubble in 2001 had led to the recent sub-prime mortgage crisis and over-investment in profitable sectors by the financial sector. Many Governments had maintained a policy of easy credit following the worldwide economic and financial crisis, yet there was now a reluctance to invest in productive capacity owing to capacity overhang.

27. The Global Green New Deal offered innovative thinking to achieve economic recovery. The proposal called for sustained investments, including investment in job creation and, most importantly, in green growth. Improving the standard of living in developing countries was not possible without access to cheap energy. Despite progress in the production of renewable energy, it was still more expensive per unit than energy produced through fossil fuels. Rather than raising the cost of energy and placing the burden on the poor, green growth promoted the generation of renewable energy through cross-subsidization, including through feed-in tariff arrangements, by which electricity distribution companies purchased different types of energy at varying prices. Investments in energy research had increased and per-unit costs had decreased when the learning process had not been impeded by intellectual property rights. Another component of green growth was investment in research to increase the productivity of food crops. Investments

in the 1960s and 1970s had yielded a significant increase in maize, wheat and rice production, but public funding for agricultural research had since collapsed. Lastly, green growth involved enhancing productive capacity and investment in green infrastructure, which improved the living conditions for people in an environmentally sustainable manner.

28. The great challenge of pursuing development while confronting the effects of global warming and recovering from the economic, jobs and food crisis offered an opportunity to invest significantly in productive capacity. Countries with savings had faced the crisis well, but their savings were tied up in low-yielding treasury bonds. Resources could be redeployed in ways that enhanced productive capacity for job-rich growth. Financial facilities with a sense of mission were needed not only to overcome the crisis, but to create conditions for a better life and future for all.

29. **Mr. Galvez** (Chile) asked what role the United Nations should play in promoting greener and more inclusive growth. He recalled that the United Nations had been highly visible in the 1990s, notably because of the series of summits meetings and international conferences; at the current time, however, with the G-20 moving to centre stage, multilateralism could be at risk. Since ILO was working with the G-20, it could perhaps act as a bridge and give indications to the various actors as to how to act in order to complement each other.

30. He believed that a new form of intellectual property rights was needed as part of the new economic model being discussed. He asked for views on how and why the current arrangement of intellectual property rights was not working in favour of fairer and more inclusive growth and what form such rights would need to take in order to support development and at the same time protect the rights of people who were creative and brought ideas into the world.

31. **Mr. Stenvold** (Norway) recalled that some stakeholders had subscribed for more than a decade to the analysis and prescriptions put forward by Mr. Somavia. Unfortunately, up until 2008, very few people had been prepared to listen to those views, which had been dismissed as naïve negativism. The people who did hold those views, had been optimistic at the fall of Lehman Brothers, thinking that finally the decision-makers would listen to their analysis, but instead, a couple of years later, the world had more or less reverted to the same economic philosophy and model. He wondered why that had happened.

32. **Mr. Almeida** (Brazil) observed that the current situation represented an emerging new paradigm. He recalled that in the 1950s and 1960s, the emphasis had been on industrialization, which at the time had been almost a synonym for development. By contrast, the concept of the social protection floor had moved the discussion back towards the people-centred and human development approach that had prevailed from the 1990s until very recently, and that had resulted in the Millennium Development Goals. He wondered whether the world was now moving towards a convergence of the various approaches, one that could be crystallized at the forthcoming United Nations Conference on Sustainable Development.

33. **Mr. Rahman** (Bangladesh) suggested that the World Trade Organization and the International Organization for Migration should also be involved in the new paradigm, and asked whether ILO was in discussions with them. He asked whether the Global Green New Deal was still a work in progress or a closed chapter.

34. **Ms. Montel** (France) noted that the SPFAG report had served to inform the work of the ministers of labour, and of development, of the G-20, both groups having met in September 2011. Their conclusions had been transmitted to the heads of State who would meet in November 2011 in Cannes, France, as the issue of the social dimension of globalization would certainly be taken up at that meeting. The crisis would not be brought under control without a structural and long-term approach. That was the approach being taken by the French presidency of the G-20, which held the view that the social protection floor concept was at the heart of inclusive, balanced and sustainable growth. Considering growth in terms of gross domestic product was no longer sufficient; the terms of the analysis must be widened. Another important aspect of the social protection floor concept was that it was counter-cyclical, which was fundamentally important in the context of the crisis. She asked for the views of the panellists on the actions of the French G-20 presidency, and also for information on the collaboration between ILO and IMF.

35. **Mr. Acharya** (Nepal) observed that the current economic development paradigm was fraught with an

inherent contradiction, in that the focus was exclusively on increasing productivity, which entailed using technology, but that in turn would lead to losses of jobs. Increasing market efficiency without a commensurate increase in aggregate demand meant that an overall recovery of the economy would never be possible. He wondered how it was possible to ensure a high level of productivity and growth but at the same time an increase in employment. A new development model would be required.

36. He asked how the rise of the idea of the social dimension of economic growth impacted the macroeconomic stability framework that was the main concern of the international financial institutions, and whether the latter were now more sensitive to that issue. Noting that the major obstacles impeding resolution of the food crisis were the lack of investment in agriculture over the long term, speculation, and the diversion of foodstuffs to make biofuels, he asked how those obstacles could be overcome.

37. **Mr. Igali** (Nigeria) said that the report and the subsequent discussion had made it clear that there was currently a high level of discontent and social alienation in the world. The international community must scale up its efforts to provide help to the most vulnerable sectors of society, especially in the developing countries, where there were no jobs and no prospects. Particular focus was needed on improving the agricultural sector, which was still the mainstay of many countries in the developing world; agricultural productivity needed to be increased, and access to markets improved.

38. **Ms. Kage** (Germany) said that it was important to translate the abstract concept of the social protection floor into practical issues like health, water and environmental matters. Finding solutions was very complicated, and even in Germany there was a constant debate about whether the country could afford its generous system of social protection. That was not an issue that could be solved once and for all, but rather a process that was under constant adaptation.

39. The crisis had clearly revealed the value of the social protection floor, which had significantly helped in the recovery, thereby putting its cost into perspective. What was needed was social consensus and a generational contract; people had to understand that social protection was not free; everybody had to contribute, through their taxes. While, based on a social consensus, company and labour representatives could come together with the government to discuss solutions, the basic question was who really represented the jobless.

40. **Ms. Williams** (Grenada) said that the phenomenon of jobless growth had created a tremendous amount of anxiety, because growth had always been coupled with job creation and expansion. Now it appeared that technological innovation was shedding jobs, which meant that the developing countries had to choose between growth and job creation. The emphasis of the current discussion, on how to achieve growth that was job-rich, was greatly to be welcomed. The investments that were made in social protection to help the large constituency of persons who were in need of social support could be the first brick in the road towards a new economy.

41. **Mr. Hirsch** (Président, Agence du Service Civique) said that the SPFAG report had not been written by social experts for social experts; much of the inspiration for the report had come from economists from IMF, the World Bank and academia, who had recognized shortly after the crisis that one of its root causes was the lack of social protection. The old paradigm "grow first and distribute later" had never been truly successful: the idea now was that if social protection was provided first, people, companies and countries would then become richer. That was a theory propounded not by social experts but by economists.

42. In writing the report, its authors had tried to create a tool which could be useful for all categories of countries. The intention had been to avoid rejection of the report by the very rich countries on the grounds that they already had social protection, or by the very poor countries on the grounds that they were too poor to offer social protection. The authors had tried to demonstrate that some matters were common to multiple countries even when they had very different levels of social protection. For instance all countries, of whatever level of development, had to consider the question of the appropriate level of out-of-pocket expenditures for health, and whether free care should be provided for the poor, for mothers, for young children, and so on. Similarly, every country had to face the question of how to finance its social protection.

43. **There was a difference between safety nets and the social protection floor. The social protection floor was a concept which included the whole population, on** a basis of solidarity, not only the poor population or poor countries. In terms of health, for instance, the concept would mean that a country could have health services that were available to all citizens regardless of income or status.

44. The concept of social protection had been a national issue, decided on at the national level, but it might now become an international one. Increasingly, what happened in one country had an impact on other countries. Unless all countries progressed in social protection, some countries that had built their own protection could be obliged to dismantle it. Also, in the absence of social protection, some of the current imbalances in the world would become greater, for example in the area of migration or pandemic disease. The intention would not be for the countries of the North to dictate to those of the South, however; indeed, one of the fascinating aspects of writing the report had been the exchanges of experiences between and among countries of the South.

45. **Mr. Somavia** said that he agreed that the United Nations had exercised policy leadership in the 1990s at numerous important gatherings. At he United Nations Conference on Environment and Development in 1992, and the World Summit for Social Development in 1995, it had been clear that governments were having problems with the habitual growth model and its consumption and investment patterns, and believed that the phenomenon of globalization was not sufficiently taking into account jobs growth, poverty reduction or social cohesion. He believed that the current crisis represented an opportunity for the United Nations to once again exercise leadership in ideas and policies and become an attractive setting for important negotiations to take place. In order to achieve that goal, one possible approach might be to make some of the bodies of the United Nations smaller and more agile, with their members acting on behalf of constituencies.

46. A further issue was that of the relationship between the United Nations and the G-20. At the time when the crisis had occurred, the G-20 had been the appropriate forum for taking some important and urgent decisions, as its member countries represented a large proportion of the world's economy and a significant part of its population. However, it was an **open question whether that was the ideal pattern for the future.**

47. **The relative positions of the United Nations and** the G-20 would be defined by the credibility of their ideas, the results they achieved, and whether there was a perception that they were actually capable of advancing policies that addressed people's problems. The forthcoming G-20 meeting in Cannes, France, was going to be very important because the current French presidency of the Group had firmly put the social implications of globalization on the table. He was certain that the United Nations had the capacity to develop the ideas and policies that could produce a new era of social justice and a fairer, greener and more sustainable globalization, and also had the capacity to take the internal decisions necessary to make the Organization once again a space for decision-making.

48. On the point made by the representative of Norway, he said that a key factor in the world's sliding back into a "business as usual" mode had been that in the developed world the valuation of the banks had gone up, the stock markets had gone up, and there had been modest growth, and so countries had concluded that the crisis was over. The G-20 had decided that there was a need to continue applying stimulus packages in order to secure growth, but that at the same time careful attention had to be paid to the increase in debt. The balance between stimulus and debt level had been defined at the G-20 summit in Pittsburgh, United States of America. However, by the time of the G-20 summit in Toronto, Canada, the balance had been abandoned and the issue was sovereign debt and austerity. At the Seoul summit, more attention had been paid to development issues, but the main factor at the Cannes meeting would be how to strike a balance between giving confidence to financial markets and ensuring the confidence of citizens. When the banks were rescued, it would have been better if conditions had been set, such as an obligation for them to invest a certain amount in the real economy, rather than only working in the financial economy.

49. The crisis was not a global phenomenon, nor had the reaction to it been uniform. Some of the emerging countries, as well as developed countries such as Australia, Canada, Germany and the Nordic countries, had been able to respond to the crisis much better than others precisely because they had a strong welfare system. Rather than being seen as a major cost, a healthy welfare system should be seen as making a

significant contribution both to maintaining a country's social stability and to facilitating its economic recovery.

50. What was beginning to emerge was the notion that a country's macroeconomic policy and employment or social policies had to be integrated. The conventional view had been that as a first step countries had to ensure that sound macroeconomic policies were in place, which would result in low inflation, a balanced budget and a low relationship of debt to gross domestic product. Such policies would produce growth and the growth would create jobs. In reality, however, the expected beneficial consequences of those policies had not come about. He suggested that a different approach would give better results, namely setting specific target numbers for job growth, just as targets were currently set for savings, investments or inflation. That would require a totally new mindset among economic decision-makers, but it would not require a modification in the way that the market worked: rather the decision-makers should set themselves different objectives and then organize their policies accordingly. At the same time, it would be necessary to gather new types of data, on employment and social issues, rather than, or in addition to, traditional data on trade and financial flows.

51. Another conventional idea that needed to be challenged was that, in order to increase productivity, the essential step was to liberalize the labour market. That was a massive oversimplification: sometimes more market regulation, not less, was needed. Another ideological idea was that increased productivity was, in and of itself, always a good thing. But if increased productivity negatively affected global demand, than that was obviously not beneficial. Once again, there was a need to take a fresh look at the economic theories and find a new balance. Another misconception was that increased productivity and resulting increased profits automatically made more resources available for investment in the real economy; in reality, newly-available resources tended to be invested in the financial economy, with investments in the real economy having stayed more or less stable for the last 30 years. Thus, as the representative of Brazil had suggested, an integration of diverging ideas was under way, but there was still a long way to go before the integration was complete.

52. A key component in the job growth equation was small enterprises. While it was true that multinational enterprises and large companies were more productive, and possibly offered jobs that were considered more attractive, it was the smaller companies that were going to produce the needed volume of jobs. Thus what was really needed was to increase the productivity of smaller companies, but while lip service was paid to the importance of small enterprises, policies were defined in terms of large ones.

53. Turning to the question about the relationship of ILO with other agencies, he said that ILO was collaborating with the World Trade Organization (WTO) on joint research projects. The third such project had been published recently, on the impact of trade on jobs. In the view of ILO, migration was caused primarily by a shortage of jobs. If countries were able to create more jobs, then much migration would be avoided, with all its attendant issues such as how migrants were treated, whether the sending countries could make agreements with receiving countries to ensure fair treatment, and so on. ILO was working in cooperation with the International Organization for Migration, to which it had communicated its view of the overriding importance of the jobs issue.

54. He agreed with the representative of France that it had been a very important initiative to make the social dimension of globalization a major topic for the G-20 summit. As for her question on cooperation with IMF, it might be seen as surprising that the two bodies should be cooperating in examining how macroeconomic policies, employment policies and social policies could be better adapted to one another, since historically ILO had been very critical of IMF, but times had changed. As both Ms. Bachelet and Mr. Hirsch had said, one important aspect of the social protection floor concept was that it must be financially sustainable. There, the expertise of IMF could help. ILO and IMF were now working with three specific countries to determine how much fiscal space was available to them to increase the dimension of social protection.

55. He fully agreed with the comments of the representative of Nigeria concerning the need to improve the agricultural sector. He welcomed the distinction made by Mr. Hirsch between safety nets, which were extended only for a specific crisis and withdrawn when the crisis was over, and the social protection floor, which was conceived of as being much more permanent, and as able to contribute to economic

recovery. He also welcomed the comment by the representative of Germany concerning representation of the jobless. He would frame it in wider terms, as who represented the disquiet that currently prevailed in society. The Organization had a mandated responsibility to be concerned about people — not just the most vulnerable but people in general — who at the current time were extremely uncertain as to what was happening, and increasingly convinced that the way the crisis was being dealt with did not take account of their concerns.

56. **Mr. Jomo** (Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs), responding to the comment about intellectual property rights, recalled that, following the acceptance of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) by the international community, the Doha Declaration had stated that the Agreement could and should be interpreted and implemented in a manner supportive of WTO members' right to protect public health and, in particular, to promote access to medicines for all. There was no reason why the international community should not work towards having other exceptions covering new green technologies, renewable energy and so on, which would make those new technologies much more accessible

57. The Global Green New Deal still had not gained sufficient support. As had been said, the world was in a situation of tremendous disquiet, and under the French presidency of the G-20 a range of new issues had been raised which had not previously been addressed by the Group. The G-20, as the forum of the largest economies in the world, could bring those issues to the multilateral institutions for debate and, it was to be hoped, implementation.

58. On the issue of the food crisis, the French presidency of the G-20 had opened up the whole question of commodity price volatility. The debate in the G-20 basically pitted those who saw the issues in terms of supply and demand against those who emphasized that the world had changed because the financialization of commodity futures and options markets had fundamentally changed the nature of those markets and made them far more procyclical. However, there was an additional layer of complication in that if a country simply increased food production, that did not necessarily mean that its people would have greater food security, particularly if the majority of the additional food was intended for export or for making biofuels. There were many aspects still to be explored.

59. **Mr. Monem** (Co-Chair) said that although the global jobs crisis appeared to be a direct after-effect of the economic and financial crisis, it could actually be a structural problem built up over the years and resulting from a variety of reasons such as, for example, the application of new labour-saving technology and reduced attention to job-rich growth. In recent years unemployment and underemployment, including disguised unemployment, had increased significantly both in developed and in developing countries. The linkage between unemployment and poverty also threatened much of the progress that had been achieved towards the Millennium Development Goals.

60. The youth and gender dimensions of the jobs crisis were particularly troubling and urgent. He agreed with Mr. Somavia that the world could not emerge from the crisis by means of the policy prescriptions that had prevailed for years. New thinking was needed, new policy prescriptions, and a new financial and economic infrastructure. The international community had to find strong political commitment and a new mindset, one that was willing to face challenges, such as the recommendations for a social protection floor as a part of a new development model. The world must also rebalance macroeconomic policies by channelling greater resources to supporting the productive sectors, creating more jobs and investing in infrastructure, agriculture, health and education.

The meeting rose at 6 p.m.

United Nations E/2011/SR.54

Economic and Social Council

Provisional

15 February 2012

Original: English

Resumed substantive session of 2011

Provisional summary record of the 54th meeting
Held at Headquarters, New York, on Monday, 5 December 2011, at 3 p.m.

President: Mr. Kapambwe ..... (Zambia)

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The meeting was called to order at 3.20 p.m.

Adoption of the agenda and other organizational matters (*continued*)

Elections, nominations, confirmations and appointments (*continued*)

Commission for Social Development

1. **The President** drawing attention to the outstanding vacancies on the Commission for Social Development, said that the Asia-Pacific Group had endorsed the candidacies of Bangladesh, Nepal and Viet Nam to fill the remaining seats for Asian States for a term beginning on the date of election and ending at the close of the Commission's fifty-third session in 2015. He took it that the Council wished to elect Bangladesh, Nepal and Viet Nam by acclamation.

2. *It was so decided.*

3. **The President** said that, in the absence of any other candidates for election to the Commission, he took it that the Council wished to further postpone the election of one member from Eastern European States for a term beginning on the date of election and expiring at the close of the Commission's fifty-first session in 2013; one member from Eastern European States and one member from Western European and other States for a term beginning on the date of election and expiring at the close of the Commission's fifty-third session in 2015; and two members from Latin America and Caribbean States and one member from Western European and other States for a four-year term beginning at the first meeting of the Commission's fifty-first session in 2012 and expiring at the close of the Commission's fifty-fourth session in 2016.

4. *It was so decided.*

Commission on Crime Prevention and Criminal Justice

5. **The President** said that the resignation of Nigeria had created a vacancy for African States. The Group of African States had endorsed Algeria to assume the resigned seat. He took it that the Council wished to elect Algeria by acclamation for a three-year term beginning on 1 January 2012 and expiring on 31 December 2014.

6. *It was so decided.*

Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

7. **The President** said that Denmark, France, Italy, Luxembourg and Sweden were resigning their seats on the Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) effective on 1 January 2012. Canada, Finland, the Netherlands, New Zealand and the United States of America had been endorsed by their regional group to assume the five resigned seats. He took it that the Council wished to elect Canada, Finland, the Netherlands, New Zealand and the United States of America by acclamation to the Executive Board of UN-Women to complete the terms of office of Denmark, France, Italy, Luxembourg and Sweden.

8. *It was so decided.*

9. **The President** announced that the United States of America was resigning its seat on the Executive Board of UN-Women, which was one of the four core contributing countries allocated in accordance with paragraph 61 (a) of General Assembly resolution 64/289, effective 1 January 2012. Sweden had been selected by the top ten core contributors to assume the resigned seat.

10. He took it that the Council wished to elect Sweden by acclamation to the Executive Board of UN-Women to complete the term of office of the United States of America.

11. *It was so decided.*

Executive Board of the World Food Programme

12. **The President** invited the Council to fill the outstanding vacancy on the Executive Board of the World Food Programme for Latin American and Caribbean States. The relevant regional group had endorsed the candidacy of Guatemala to fill the vacancy.

13. He took it that the Council wished to elect Guatemala by acclamation to the Executive Board of the World Food Programme for a three-year term beginning on 1 January 2012 and expiring on 31 December 2014.

14. *It was so decided.*

Programme Coordinating Board of the Joint United Nations Programme on HIV/AIDS (UNAIDS)

15. **The President** said that he had been advised that the Group of Western European and Other States had endorsed the candidacies of Canada and Norway to fill the remaining seats allocated for Western European and other States in the Programme Coordinating Board of the Joint United Nations Programme on HIV/AIDS (UNAIDS).

16. He took it that the Council wished to elect Canada and Norway by acclamation to the Programme Coordinating Board of the Joint United Nations Programme on HIV/AIDS for a three-year term beginning on 1 January 2012 and expiring on 31 December 2014.

17. *It was so decided.*

Governing Council of the United Nations Human Settlements Programme (UN-Habitat)

18. **The President** said that he had been advised that the Group of Western European and Other States had endorsed the candidacy of Israel for election to the Governing Council of UN-Habitat to fill one of the two outstanding vacancies in their group.

19. He took it that the Council wished to elect Israel by acclamation to the Governing Council of the United Nations Human Settlements Programme for a four-year term beginning on 1 January 2012 and expiring on 31 December 2015.

20. *It was so decided.*

21. **The President** said that, in the absence of any other candidates for election to the Governing Council of UN-Habitat, he took it that the Council agreed to further postpone the election of two members from Western European and other States for a term beginning on the date of election and expiring on 31 December 2011; two members from Western European and other States for a term beginning on the date of election and expiring on 31 December 2012; and two members from Eastern European States and one member from Western European and other States for a four-year term beginning on 1 January 2012 and expiring on 31 December 2015.

22. *It was so decided.*

Organizational Committee of the Peacebuilding Commission

23. **The President** recalled that, in accordance with Economic and Social Council resolution 2010/36, members elected to represent the Council in the Organizational Committee of the Peacebuilding Commission served a term of office beginning on 1 January and expiring two years thereafter, or until the expiration of their membership in the Council. The term of office of Guatemala would expire on 31 December 2011, creating a vacancy to be filled by the Council.

24. The Group of Latin American and Caribbean States had endorsed the candidacy of Chile to fill the vacancy. He took it that the Council wished to elect Chile by acclamation to the Organizational Committee of the Peacebuilding Commission to complete the term of office of Guatemala from 1 January 2012 through 31 December 2012.

25. *It was so decided.*

Social and human rights questions (*continued*)

(b) Social development (*continued*) (E/2011/26)

(g) Human rights (*continued*) (E/2011/22)

Action on decision 49/101 of the Commission for Social Development (E/2011/26)

26. **The President** invited the Council to take action on decision 49/101 of the Commission for Social Development. In that decision, the Commission nominated six candidates for membership in the Board of the United Nations Research Institute for Social Development, namely Mr. Ping Huang (China) and Ms. Shulz (Switzerland) for a four-year term beginning on the date of confirmation by the Council and expiring on 30 June 2014; Mr. Evans (United States of America), Ms. Eyben (United Kingdom), Ms. Sunden (Sweden) and Ms. Tadesse (Ethiopia) for an additional two-year term beginning on the date of confirmation by the Council and expiring on 30 June 2013.

27. He took it that the Council wished to confirm the nominations of those six candidates.

28. *It was so decided.*

Economic and environmental questions (*continued*)

(a) Sustainable development (*continued*)

Draft resolution E/2011/L.52 entitled "Review of United Nations support for small island developing States"

29. **The President** invited the Council to take action on draft resolution E/2011/L.52. He pointed out that Palestine had been included in error in the list of sponsors and that Cape Verde, Côte d'Ivoire, Denmark, Finland, Germany, Greece, Guinea-Bissau, Hungary, Ireland, Israel, Italy, Jordan, Latvia, Lithuania, Luxembourg, Malta, Mauritius, Morocco, New Zealand, Portugal, Senegal, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom had become sponsors of the draft resolution.

30. **Mr. Sammis** (United States of America) said that his delegation wished to join as a sponsor of the draft resolution.

31. **Ms. de Laurentis** (Secretary of the Council), presenting the programme budget implications of draft resolution E/2011/L.52, said that the resource requirements for preparing the report requested in paragraph 1 of the draft resolution were estimated at $80,000, covering fees for two consultants ($20,000), travel by the consultants to attend a two-day expert group meeting in New York ($6,200), travel by six Committee members to attend the two-day expert group meeting and a day for consultations in New York ($36,400), and travel by three experts to attend the two-day expert group in New York ($17,400). It was expected that those requirements could be met from the resources proposed under section 9, Economic and social affairs, of the proposed programme budget for the biennium 2012-2013.

32. With regard to the words "within existing resources" contained in operative paragraph 1, she drew attention to the provisions of General Assembly resolution 45/248 affirming that the Fifth Committee was the appropriate Main Committee entrusted with responsibilities for administrative and budgetary matters. Should the Council adopt the draft resolution, there would be no additional programme budget implications for the biennium 2012-2013.

33. **The President** took it that the Council wished to adopt the draft resolution.

34. *Draft resolution E/2011/L.52 was adopted.*

35. **Mr. Mohamed** (Observer for Maldives) said that Denmark, Fiji, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Malta, Luxembourg, the Marshall Islands, Mauritius, Micronesia, Nauru, New Zealand, Palau, Samoa, Seychelles, Slovenia, Solomon Islands, Sweden, Tonga, Tuvalu, the United Kingdom and Vanuatu aligned themselves with the statement he was about to make.

36. The consensus in favour of the draft resolution confirmed the importance placed on addressing the development issues faced by small island developing States owing to their unique vulnerabilities. The independent views of development experts were essential for the report that the Committee on Development Policy had been asked to prepare. In order to ensure that the report could be prepared within the regular budget for the biennium 2012-2013, the Secretariat should pursue innovative and cost-saving methods.

37. Paragraph 3 of the draft resolution invited the Secretary-General to facilitate the work of the Committee, and other parts of the United Nations system, including the Inter-agency Consultative Group on Small Island Developing States, the Small Island Developing States Unit in the Department of Economic and Social Affairs, the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island States and the United Nations Conference on Trade and Development, were encouraged to do likewise.

38. **Ms. Bethel** (Bahamas), speaking on behalf of the States members of the Caribbean Community (CARICOM), said that the Barbados Programme of Action and the Mauritius Strategy remained the essential blueprints for the sustainable development of small island developing States, which had been recognized within the United Nations system as a particularly vulnerable grouping and which required the full and effective implementation of all commitments made to support them.

39. Preparation of the report requested in paragraph 1 of the draft resolution did not imply a new mandate to deal with small island developing States. Rather it should be viewed as an input to the review process initiated by paragraph 33 of General Assembly resolution 65/2. Nor should the report be considered by the Economic and Social Council at any future session. The United Nations Commission on Sustainable

Development was the primary intergovernmental follow-up mechanism for monitoring the implementation of commitments on small island developing States.

(g) Human rights (*continued*) (E/2011/22)

Report of the Committee on Economic, Social and Cultural Rights

40. **The President** recalled that the Council had deferred consideration of recommendations contained in the report of the Committee on Economic, Social and Cultural Rights (E/2011/22). The Chair of the Committee had drawn the Council's attention to the growing backlog of reports submitted for the Committee's review. In order to cope with the backlog, the Committee was seeking the Council's approval for an additional two weeks of meeting time per year.

41. In view of the ongoing process of strengthening the treaty body system and the final report which the High Commissioner for Human Rights would be presenting on that subject, he proposed that the Council should further defer its consideration of the recommendations contained in the report of the Committee on Economic, Social and Cultural Rights (E/2011/22) until its substantive session of 2012.

42. *It was so decided.*

Coordination, programme and other questions (*continued*)

System-wide coherence: Linkages between the Commission on the Status of Women and the Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

43. **The President** recalled that in paragraph 67 of General Assembly resolution 64/289, entitled "System-wide coherence", the General Assembly had emphasized the need to establish concrete results-based reporting mechanisms, as well as the need for coherence, consistency and coordination between the normative and operational aspects of the work of UN-Women. He had been informed that a draft proposal was being considered by the Executive Board of UN-Women and the Commission on Status of Women. In view of that fact, he proposed that the Council should defer its consideration of the matter until its substantive session of 2012.

44. *It was so decided.*

45. **The President**, reporting on the 2011 Economic and Social Council Retreat, which had been held on 11 and 12 November, said that the retreat had brought together a group of former Economic and Social Council presidents, senior officials of the United Nations system and academics to take stock of the Council's reform to date and explore ways to further enhance its role and effectiveness in addressing global development challenges. General Assembly resolution 65/285 on the review of the implementation of General Assembly resolution 61/16 and the accompanying report of the President of the General Assembly had provided a basis for the discussions. Preparations for the upcoming Conference on Sustainable Development and a post-2015 United Nations development agenda had served as a backdrop to the Retreat. A report on the Retreat would be circulated to Council members in due course.

The meeting rose at 4.10 p.m.